Basic Business Skills Course for Accredited Drug Shop (ADS) Owners

Module 6
Recordkeeping and Business Financial Management

Objectives

As a result of actively participating in this module, the individual will be able to:

1. State the guidelines for setting up a simple bookkeeping system for his or her ADS.
2. Explain how to carry out the four steps of reconciling your bank account balance.
3. Explain how to record monthly income and expenditures.
4. Explain how to calculate whether an ADS has made a profit or had a loss that month.
5. Name the four key elements of a credit management strategy.

Bookkeeping

Keeping accurate records of the *financial transactions* of your business:

- Recording the day-to-day financial transactions of the ADS.
- Keeping tabs on purchases, sales, receipts, and payments.
- Recording all transactions in the correct bookkeeping record.

Purpose of Bookkeeping (1)

There are two *general* purposes of bookkeeping:

1. To help you manage and grow your business.
2. To comply with tax requirements.

Purpose of Bookkeeping (2)

Specifically, bookkeeping enables you to:

1. Compare your forecasts with actual monthly figures to evaluate your business's financial health.
2. Analyse your expenses to decide how to operate your business more cost effectively.
3. Discover your most profitable customers and/or products and find ways to increase your profit per customer.
4. Detect any problems when you might be straying into cash flow difficulties, so you can act decisively to prevent a crisis.

Bookkeeping Records

Important bookkeeping records for the ADS:

- Cash Sales Book
- Credit Sales Book
- Cash Purchase Book
- Credit Purchase Book
- Receipts
- Invoices
- Bank deposits
- Bank withdrawals/cheque stubs
- Prescribing and dispensing log

Setting Up a Simple Bookkeeping System (1)

1. **Invoices:**
   a. Keep all of your invoices and receipts in two sets of files, one for sales and one for purchases.
   b. Assign a unique reference number to every invoice in and out and note it in your books or in your computer system.
   c. Then file the invoices in that order in the relevant folder.

Setting Up (2)

2. Expenses:

a. Keep records of all expenses (including receipts).

b. Record the money you have paid in one section of your cash book.

c. Assign columns for: Supplier's name or employee's name if you are paying wages; Transaction date; Amount; Your own reference number; and Cheque number.

Supplier's/ Employee's name	Transaction date	Amount	Your reference no.	Cheque no.

Setting Up (3)

2. **Expenses** (cont.):

   d. Divide expenses up into columns, with headings such as utilities, insurance, wages, rent, marketing expenses, etc. If you are VAT-registered, you will also need a column for VAT inputs and outputs.

   e. Add up the totals of each column at the end of each month. Then start a new page for the new month by bringing forward last month's totals into the columns for this month.

Utilities	Insurance	Wages	Rent	Marketing	VAT

Setting Up (4)

3. **Income:**
   a. Establish another section in your cash book for the money you receive.
   b. Record your income.
   c. Note the details of each transaction.
4. **Petty cash:**
   a. Control your petty cash.
   b. Keep the float at a constant level (in cash, or cash plus receipts).
   c. When you need to top up the cash, remove all the receipts to enter into your books properly.

Setting Up (5)

5. **Account balance:**
   a. Reconcile your bank account at least once a month.
   b. The steps:
      i. Start with the previous balance as shown in your bank statement.
      ii. Add all subsequent payments received.
      iii. Subtract all payments made.
      iv. Ensure that the balance matches your latest bank statement.

NOTE:

- Cancelled documents or cheque leaves should not be torn off.
- Some transactions may be so small that documents may not be prepared, hence, write them down.
- Store all business documents safely.

Income and Expenditure Control

What is income?

- Money that comes into your business.

What is expenditure?

- Money that goes out of your business.

Books of Accounts

- This is where the records are first made.
- These books are written from source documents (e.g., receipts).
- Examples include:
  - Cash book
  - Sales day book/credit sales
  - Purchases day book/credit purchases

Cash Book

- This book records **only cash** transactions (i.e., cash and cheque transactions).
- Cash coming in is recorded on the *left-hand side* and cash going out on the *right-hand side*.
- The format of the cash book depends on whether a business operates a bank account or not.
- The information in the cash book is obtained from the **daily record book.**

Note: For ADS, the **prescribing & dispensing log** gives a good view of cash transactions to be entered into the cash book.

ANNEX 4: ADS PRESCRIBING & DISPENSING LOG

						Diagnosis (Tick or Specify)							Treatment (number of capsules/tablets/tubes/sachets/bottles/cycles) dispensed											
No.	Date	Pt. Name	Age	Sex	Address	Malaria	Diarrhoea	Cough	Anaemia	Ring worm	Fungal Skin	Other (Specify)	Artemether/Lu	ORS	ZINC	Amoxycillin	Amoxycillin	Ferrous	Albendazole	Clotrimazole	Other (specify	Total Cost	Prescribed By	Dispensed By
	TOTAL																							

Format For a Single Column Cash Book

Money in Cash book Money out

Date	Details	Amount	Date	Details	Amount

Format For a Double Column Cash Book

Money in Cash book Money out

Date	Details	Cash	Bank	Date	Details	Cash	Bank

Note: if the business doesn't buy or sell on credit, you only need a cash book.

Format For a Debtor's Book

Debtor's book for the month of…

Date	Name of Debtor	Invoice . no	Amount

This book records only credit sales.

DEBTORS' BOOK
Customer Account

Name of customer:

Address:

Telephone number:

Credit Limit:

Date	Details	Quantity	Credit sales	Amount paid	Balance	Signature

Format For a Creditor's Book

Creditor's book for the month of…

Details	Name of creditor	Invoice no.	Amount
Total			

This book records only credit purchases.

Calculating Profit and Loss (1)

Income and expenditure

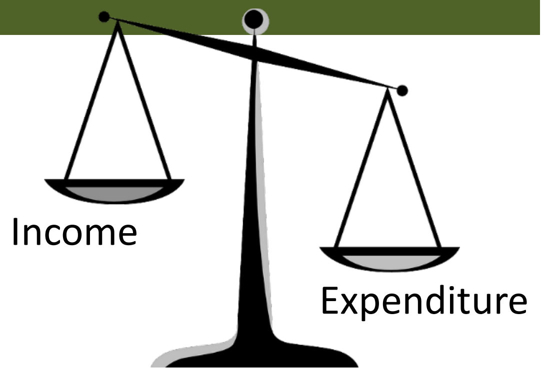
- A business cash book is used to record all the money that comes into and out of the business.
- However, it does not indicate whether the business has registered profits or losses.

Money in - Money out = PROFIT or LOSS

Calculating Profit and Loss (2)

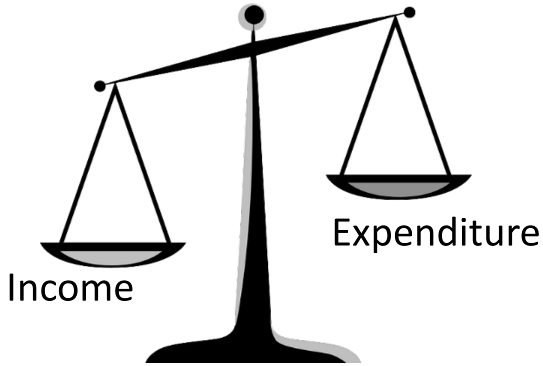
PROFIT means that there is more income than expenditure.

- You received more money from selling your products than you spent on producing or buying your supplies.



LOSS means that there is more expenditure than income.

- You spent more money on producing or buying your supplies/products than you received from selling your products.



Calculating Monthly Profit or Loss

Step one

1. From the cash book of the business (receipt side/money received side), total all revenues from sales and other monies received during the period, including credit sales. This will give you *total income*.

Step two

2. From the cash book (payment side/money out side), total all payments made (purchases and expenses), including credit purchases. This will give you *total expenses*.

Step three

3. Subtract *total expenses* from *total income*.

If the difference is positive, then the business has made a profit.	**If the difference is negative, then the business has made a loss.**

You can then make decisions on the basis of the results in the interest of the business.

Demonstration: Filling In the Cash Book

Money in CASHBOOK **Money out**

Date	Details	Cash	Bank	Date	Details	Cash	Bank
13/5	Sales	1500					
13/5	Loan repaid	2000					
14/5	Deposit		15,000	14/5	Stock purchase from Acme wholesaler	(4000)	
15/5	Sales	852					
17/5	Sales	3256		17/5	Withdrawal for salaries		(6000)
18/5	Sales	8452		18/5	License fee	(5000)	
20/5	Sales	5246					
	Total =	26,926	15,000		Total =	(9000)	(6000)

Demonstration:
Calculating Monthly Profit or Loss

Total income =	
Total expenditure =	
PROFIT (+) or LOSS (-) =	

Demonstration:
Filling In the Cash Book

Money in | **CASHBOOK** | **Money out**

Date	Details	Cash	Bank	Date	Details	Cash	Bank
13/5	Sales	1500					
13/5	Loan repaid	2000					
14/5	Deposit		15,000	14/5	Stock purchase from Acme wholesaler	(40,000)	
15/5	Sales	852					
17/5	Sales	3256		17/5	Withdrawal for salaries		(6000)
18/5	Sales	8452		18/5	License fee	(5000)	
20/5	Sales	5246					
13/5	Sales	1500					
	Total =	26,926	15,000		Total =	(45,000)	(6000)

Demonstration:
Calculating Monthly Profit or Loss

Total income =	
Total expenditure =	
PROFIT (+) or LOSS (-) =	

Buying and Selling on Credit (1)

Selling on credit

Advantages	Disadvantages
• Provides a service to customers	• Customers may default
• Helps attract customers	• Requires careful tracking
• Helps retain customers	• Money is tied up/unavailable

Buying and Selling on Credit (2)

Buying on credit

Advantages	Disadvantages
• Larger sales volumes	• Can be more expensive (interest!)
• Larger profits	• Must be paid off before interest is due
• Increased credit worthiness	• Can affect bottom line

Buying and Selling on Credit (3)

- Requires a clear credit management strategy.
- Requires keeping track of:
  1. Who owes the business money.
  2. How much is owed.
  3. To whom the business owes money.
  4. How much the business owes.